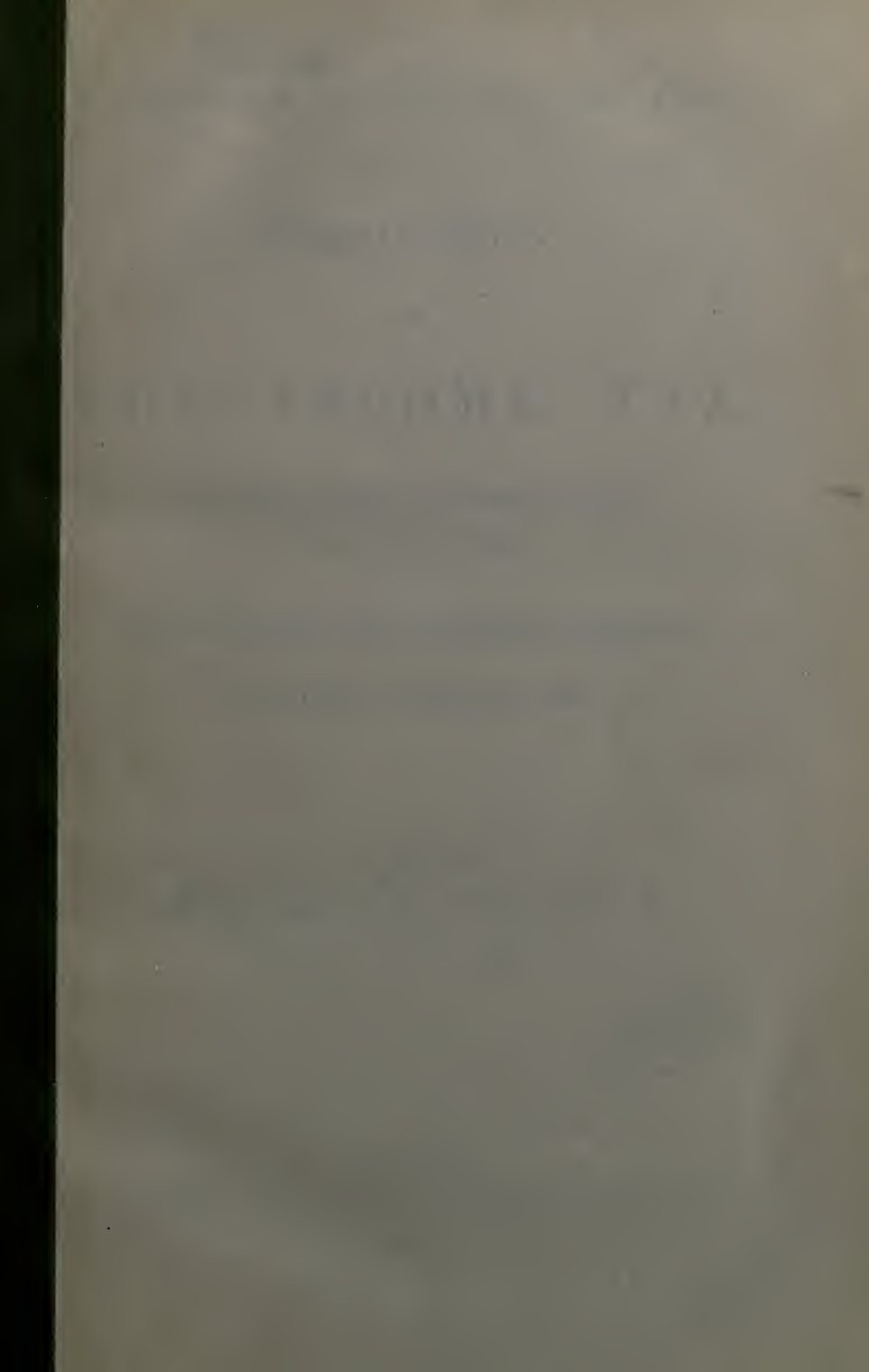


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Gladstone on the
income tax. Discussion ...

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Gladstone on the Income Tax.

DISCUSSION

ON

THE INCOME TAX,

IN THE HOUSE OF COMMONS ON

25TH APRIL, 1884.

WITH PREFACE AND HISTORICAL SKETCH,

INCLUDING A PROPOSED BILL.

BY THE

Mr
RIGHT HON. J. G. HUBBARD, M.P.

1st Baron Addington
...

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14.3.52

LONDON:

EDWARD STANFORD, 55 CHARING CROSS, S.W.

1885.

TO MY FELLOW CITIZENS
IN WHOSE MIDST I HAVE LABOURED
MORE THAN THREESCORE YEARS,

I Dedicate these Pages

AS A TOKEN OF THE ANXIOUS DESIRE TO
PROMOTE THEIR WELFARE AND PROTECT THEIR RIGHTS
WHICH HAS EVER GUIDED MY CONDUCT AS A
REPRESENTATIVE IN PARLIAMENT OF
THE GREAT CITY OF LONDON.

JOHN G. HUBBARD.

4, *St. Helen's Place, Bishopsgate,*
1 May, 1885.

P R E F A C E.

AN imperative sense of duty constrains me to a task involving the painful necessity of inculcating a man, for whose unrivalled intellectual eminence and varied accomplishments I entertain the highest admiration, and for whom personally I retain an old affection, which has not been extinguished by the many severe trials which it has encountered.

It may seem cruel to dissipate the halo which glorifies an object of Hero-worship, but the seeming cruelty may be true benevolence, if it helps to check the pernicious tendency of men charged with public responsibility, to stifle their reasoning faculties and renounce their individual freedom, in order to place their political action at the disposal of a fellow-creature, who, to justify their subserviency, ought to be omniscient and infallible.

Lord Rosebery, in the course of his speech at Manchester on the 1st of April, 1885, affirmed that "if the Opposition came into power to-morrow, they "would claim the confidence of the country on the "ground of aversion to Mr. Gladstone." This allega-

tion may have been prompted by the consciousness that Mr. Gladstone's policy has been habitually based upon a bitter and implacable enmity to Mr. Disraeli. During a whole generation the country and the character of its public men have suffered owing to our party warfare having been guided, not by the conflict of principles affecting imperial interests, but by the conflict of persons; while the divisions of the legislature have been distinguished, not by adhesion to rival policies, but by allegiance to antagonistic political rivals.

Amongst the domestic interests which under these circumstances have seriously suffered, I may point especially to the administration of our Imperial and Local Taxation. "The Valuation of Property (Metropolis) Act, 1869," is by its date and in its limited sphere a constant reproach to successive governments which have neglected to apply to all England the principle and provisions generally of the Act of 1869. And as regards our Fiscal procedures, their chaotic condition may be illustrated by the history and present condition of the Income Tax—a tax every day becoming more important in the share it must needs occupy in our fiscal scheme; a tax which cannot and ought not to be disused, and yet a tax of which the crying injustice is admitted on all sides.

During more than thirty years I have striven to effect the reformation of the Income Tax upon principles scientifically sound and already accepted

in our legislation; and upon Mr. Gladstone rests the responsibility of having thus long delayed it by obstructing every attempt at discussion, and, when the opportunity of discussion at last arrived, by overwhelming the motion with an avalanche of denunciatory eloquence, wholly evading the merits of the question, but ensuring its temporary discomfiture by the votes of his devoted followers. This is a serious charge, which I would not make, unless I knew that it could be substantiated, and unless I felt that its national importance should outweigh the reluctance arising from personal considerations.

With a due regard for time, I shall present my case in the form which will enable the essential points to be readily seized. The history of the Tax and the scheme of adjustment which I propose will be found in a reprint of the few pages which, under the title of "Forty Years of Income Tax," appeared as an article in the 'National Review' of February 1884. Then follows my speech in the House of Commons on the 25th of April, 1884, traversing the same ground as the article, but requisite as ending with the resolution to which Mr. Gladstone in his speech professed to make reply.

For the facility of reference I divide Mr. Gladstone's reply into sections, and I will deal with them *seriatim*.

SEC. 1.—On the 24th April, 1884, the stipulated

number of forty members had risen to support my protest against the appropriation of Fridays for Government business, to the detriment of private members, and Mr. Gladstone, on the 25th, contrasted the zealous support given to me on the preceding day with the scanty attendance when I spoke at 7.30 P.M. on the 25th. It is Mr. Gladstone's habit to disparage, as void of public interest, a motion he disapproves, if by any chance the attendance in the House is scanty. My motion had to contend with the simultaneous attraction of the dinner hour, but clearly the merits of the question were no more affected by the attendance in the House than by my previous want of success in a movement opposed by Mr. Gladstone through a long series of years with every device, except fair discussion.

SEC. 2.—Once (as Mr. Gladstone says) I beat him. It was in 1861—when the House, after a fair hearing (and in the face of Mr. Gladstone's resolute opposition), by a majority of four gave the Committee I asked for. The Committee, arranged by the party whips, was unfavourable to me from the first, and the Report which they adopted came to the astounding conclusion that the objections urged against the Income Tax were "objections to its nature and essence." If this allegation were true it would involve this consequence, that every subsequent administration would lie under the reproach of consciously perpetuating a fiscal

system of which the grave injustice and admitted defects were inseparable from its nature, and which should therefore have been discarded.

SEC. 3.—Mr. Gladstone does not pretend to question the vices of the present income tax; “he does not contest one of its many inequalities, “it is hardly possible to exaggerate them,” and yet he deliberately again and again re-enacts the tax. It would be difficult to excuse what appears to be a cynical indifference to the demoralising influence of an unequal and oppressive impost.

Mr. Gladstone cites the names of officials of the Inland Revenue “as having regarded the reform “of the Income Tax as visionary.” They were unlikely to give any other opinion. The terror of their master’s wrath if provoked by unpalatable evidence sealed many mouths who would otherwise have given useful information; but neither Mr. Pressly nor Mr. Timm could, under examination before the Committee, sustain any practical objection to the adjustment I advocated in 1861.

SEC. 4.—Mr. Gladstone charged me with being “canny” in concealing from landowners that my scheme would increase their burthen of taxation. The charge of disingenuousness he subsequently and courteously withdrew, but the alleged fact remained to be dealt with. Mr. Gladstone, assuming that one-fourth of all rents under Schedule A were absorbed by mortgagees and encumbrancers, had computed that the owner’s tax

would, under my scheme, be increased by 70 per cent. The following Statement will show that the Owners' rents, assessed under Schedule A, would, under my scheme, pay not 70 per cent. more but 5 per cent. less than at present, and thus distinctly disproves the invidious charge that "I am going to tax further Schedule A as the main basis of my operations."

Statement, showing the yield of a 5*d.* Income Tax levied on the assessments of 1881-2, compared with the estimated yield of a 6*d.* Income Tax levied under the provisions of the "Income Tax Administration Amendment Act."

Schedule.	Yield of 5 <i>d.</i> Tax.	Assessment 1881-82.	Rate and Amount of Abatements.	Revised Assessment.	Yield at 6 <i>d.</i>	Plus or Minus.
	thousands.	thousands.	thousands.	thousands.	thousands.	thousands.
A						
Owners . . .	£2,709	£130,013	£27,736	£102,277	£2,557	- £152
Capitalists. .	902	43,337	..	43,338	1,084	+ 182
	£3,611	£170,350	16% £27,736	£145,615	£3,641	..
B	321	..	..	..	321	..
C	834	39,993	..	39,993	998	+ £164
D						
Interest on Capital . . .	4,809	115,428	..	115,428	2,885	..
Industrial gains	..	115,428	1/3 38,476	76,952	1,924	..
E	568	27,285	1/3 9,095	18,190	455	- 113
	£10,143				£10,224	+ £81

NOTE.—(As estimated by Mr. Gladstone in 1853)—One-quarter of the gross rents assessed under Schedule A are paid to the capitalist, mortgagee or encumbrancer. The out-goings on Schedule A average 16 per cent.

The profits assessed under Schedules B and D I assume to be one-half Interest on capital, one-half Industrial gains.

From this Statement it appears—

1. That a tax of *6d.* equitably levied will yield rather more than a tax of *5d.* does now.
2. That the Owners' residue of rent under Schedule A would yield £152,000 less, and that salaries under Schedule E would yield £113,000 less than at present.
3. That the Capitalists' share of rents under Schedule A would yield £182,000 more, and Capitalists' interest under Schedule C would yield £164,000 more than at present.
4. That B and D would pay the same amounts as now in the aggregate, the abatement in either Schedule on the "Industrial Gains" being balanced by the addition to the rate.

The advantage of the improved assessment of Schedule A is not to be measured by the aggregate relief to the owners' rents—it is even more conspicuous in its redress of individual oppression. I will illustrate this process.

Brown, Jones, and Robinson, have each an estate of £2000 nominal, but of £1800 effective annual value. Brown's estate is unencumbered.

Jones pays £1600 a-year, and Robinson £1780 a-year interest on their mortgage debts to Dives, the capitalist, who receives his interest subject to the deduction of 5*d.* in the pound. Brown taxed on £2000, and receiving £1800 net, pays at the rate of 5½*d.* on his net income. Jones taxed on £2000, but recovering from Dives the tax on £1600, pays on £400, or at the rate of 10*d.* in the pound on his residue of £200. Robinson is taxed on £2000, but recovering the tax on £1780, pays on £220, or at the rate of 55*d.* in the pound on his residue of £20.

All these gross and oppressive inequalities are remediable by the simple process of taxing, not Gross, but Rateable value. A glance at the Schedule of Abatements which I append to my Bill, and which I borrow from the "Valuation of "Property (Metropolis), 1869, Act," will suffice to show the glaring injustice of taxing at the gross or nominal value rents which for local rating are subject to deductions varying from 5 to 33½ per cent.

At first sight it may appear that traders are unaffected by my scheme, inasmuch as the amount charged on Schedule D is in the aggregate the same as under the present system; but the discriminating assessment of the products of capital, and of the products of industry throws upon capital the whole of its rightful burthen. For instance, Green, with a capital of £21,000, makes £1200; and his return should be—

Interest on capital at 4 per cent.	£840
Industrial gains ..	£360
Abatement, one-third	£120
	£240
Taxable	£1080

White's capital is only £3000, but making also £1200, he returns—

Interest on capital at 4 per cent.	£120
Industrial gains ..	£1080
Abatement, one-third	360
	£720
	£840

Farmers (Schedule B) will share the advantages of Schedule D, for they also are traders. I cannot give the Assessment corresponding with the tax levied on Farms, for the official returns state, as the assessment of Schedule B, sums which are not in relation both to the *5d.* rate and to the amounts assessed. Salaries, Schedule E, are assumed to be the products of industry and intelligence, apart from the employment of capital, and therefore entitled to an adequate abatement on their full amount.

It will be observed that the result of the proposed adjustment is to relieve industry, and throw upon the products of capital their appropriate burthen. Every man would pay

upon his real income. The rectification of grave inequalities must, by placing every individual on the same basis, exhibit results varying for better or worse compared with their previous liability. Individual or class advantage has never entered into my consideration. I have pursued a principle which, being just in itself, cannot work unjustly in any instance.

SEC. 5.—Mr. Gladstone charges me with breaking faith with the fundholder. If the fundholder were taxed exclusively, or at a heavier ratio, he would have a right to complain, but when other taxpayers are charged upon their net incomes at the same rate as that levied upon his own net income, he has no cause of complaint, nor is any breach of faith committed by the State.

It is a conspicuous proof of the absence of a solid argument against my scheme that this figment of a fundholder's grievance, contrived by assuming as proven the very point which I disprove, is invariably dragged into the discussion by Mr. Gladstone.

Mr. Gladstone reserves for the last his heaviest blow, and indignantly exclaims:—"No single minister or economist, with the exception of Mr. James Wilson, could have concurred in the scheme of my Rt. Hon. friend." Mr. Pitt and Sir Robert Peel were great financiers—continues Mr. Gladstone—but neither they in their day, nor he himself, Mr. Gladstone, with all his faculties,

had contrived to remedy the injustice of the Income Tax, *ergo*, the thing could not be done.

I do not feel that this sledge-hammer has touched me. I do not see the *sequitur* to the first proposition. The argument, if it be one, is assuredly refuted by every fresh discovery—by every step in science—by every advance in civilisation and statesmanship.

If the scheme of Income Tax which I advocate were my own invention, I should still feel myself guilty of no presumption in thinking that, upon a subject to which I have devoted more study than probably any man living, I had discovered a remedy for the defects of the Income Tax, which had not suggested itself to Pitt, or Peel, or Gladstone; but, in truth, I have invented nothing. I have borrowed the principle of my measure from Adam Smith, and have applied the principle, by assimilating the administration of the Income Tax to that of Local taxation—taxing as Annual Value the Net or Rateable Value, in accordance with the provisions of the Valuation Acts for local rating, which have now for some years been on our statute book.

When Mr. Gladstone repeats in 1884 a speech which he made in 1864, he overlooks the fact that he and the Committee of 1861 denounced as impossible in the levy of the Queen's Taxes the system of adjustment operating by abatements from gross income which is enshrined in the Valuation (Metro-

polis) Act of 1869, and he omits to discover that the one plausible objection he then raised against my proposal to abate one-third of all trade profits is satisfied by an improvement which the spread of education justifies, and which requires a trader in his self-assessment to distinguish between the interest derivable from his capital and the purely industrial gains acquired in addition.

What, then, is Mr. Gladstone's position in relation to the Income Tax? He admits its cruel inequalities, but asserts their adjustment to be impossible.

Adopting from the Report of 1861 its humiliating confession of incapacity to devise an equitable Income Tax, he held out the abolition of the Tax as a bait to the constituencies, when he was wooing their favour in his oratorical crusade against Conservatism in 1874. The constituencies rejected him, and so (he says) forfeited the promised deliverance from a hateful impost, which they now must retributively bear through an undefined future.

But Mr. Gladstone has not explained why he did not abrogate the Income Tax when he resumed office in 1880. The reason is obvious: neither in 1874 nor in 1880, nor in any later year, could an Income Tax be dispensed with, for it is now, as a substitute for indirect taxation, the only means of taxing classes of persons who would otherwise escape scot free, or nearly so.

Mr. Gladstone exclaimed on the 25th April, "Why does the right hon. gentleman not make his plan?" Well, here it is, at p. 42, and I affirm that, although Mr. Gladstone made two specific charges—both of which I have disproved—he left the principle and provisions of that Bill absolutely untouched in his denunciatory speech. In that speech Mr. Gladstone says, "I remember very well going to Sir Robert Peel when I was a Parliamentary youngster, after hearing something like the speech to-night. I was extremely captivated by the speech, and spoke to Sir Robert Peel about it. He put an extinguisher upon me in half a minute." What the speech was, and what its defects, we are not told; but does Mr. Gladstone expect intelligent beings to be silenced because he was put under an extinguisher? What claims can he adduce for requiring the unreasoning subjection of the House of Commons? In his tenure of office he has, by a course of vacillation, and by a series of failures, destroyed all reliance in the honest and wise administration of several important departments of the State. In his foreign and colonial policy there is little to record but disaster and disgrace—the efficient maintenance of our naval and military forces has been perilously neglected—his fiscal policy has been inimical to the freedom of commercial transactions, and during his direction of the national finances, the legislative experiments

of the Exchequer have endangered the integrity of the Standard Coinage and impaired the reputation of the National Funds. In his attempt to lower the interest of the Public Debt Mr. Gladstone sustained in 1884, as in 1853, a signal discomfiture, because he rashly proposed to effect by force of will an operation which circumstances did not justify.

The enormous warlike expenditure in which we are now involved cannot be met without an addition to the Income Tax, intensifying through a higher rate every one of its crying anomalies. The futile pretexts on which Finance Ministers have resisted the adjustment of the Tax have vanished, but to obtain that adjustment the House of Commons must declare its will. The House with patriotic unanimity has voted the millions required by the Prime Minister to maintain the honour and dignity of the country; will not its members on either side emancipate themselves from official and party trammels, and patriotically in their turn require that the Tax through which millions must hereafter be levied upon the people shall be equitably administered?

The "Income Tax Administration Amendment Bill," brought in by Mr. Hubbard, Sir Charles Forster, Mr. E. A. Leatham and Mr. Whitley, stands first for a second reading on the 13th of May.

J. G. H.

FORTY YEARS OF INCOME TAX.



FINANCIAL proficiency should be as conspicuous in the wisdom with which the public revenue is levied as in the care with which it is expended; but, strange to say, while the supplies for the public service are closely examined and discussed, the provision of those supplies attracts comparatively scant attention. The public revenue remains a confused and chaotic aggregate—the residuum of taxes imposed for special emergencies, reduced or repealed under the pressure of class influence; and presenting in its entirety no system—no principle ensuring the convenience of the State, or the equitable assessment of the subject.

In the past, taxes were arbitrarily imposed, and their proceeds capriciously connected with wholly irrelevant objects—for instance, Customs Duties were imposed by Charles II., 18, c. 5, on wines and spirits, and their produce was “to be kept apart and applied to no other use than that of defraying the expenses of the Mint,” and only in

1787 were these duties diverted from the Mint and carried to the Consolidated Fund.

It may be pleaded, in extenuation of the want of principle and system in former centuries, that the national expenditure was itself so insignificant that the mode and means of levying it never challenged serious attention; the public expenditure in times of peace having been—in 1701, £3,400,000; in 1751, £6,400,000; in 1771, £10,100,000; and in 1791, £18,000,000. Wars with France, between 1792 and 1802, necessitated not only very considerable loans, but increased taxation, including, under Pitt's administration, an Income Tax levied between the years 1798 and 1802, and, after the short peace of 1802, revived to operate, with variations but unremittingly, from 1803 to 1815, in which year the national expenditure reached £113,000,000.

When, in 1842, Sir Robert Peel re-enacted a Property and Income Tax, he followed the lines of the Act of 1803. As he pledged the country to the endurance of this impost for three years only, the brevity assigned to the infliction may explain the disregard of the glaring defects of a measure recommended by the fame of Mr. Pitt. Whatever the fame of Pitt or Peel as financiers, I protest against their names being used to shield from censure when continuously employed a fiscal instrument devised to meet and satisfy a temporary exigency. Sir James Paget might in an

emergency amputate a limb with a butcher's cleaver, but it would be rash to argue that he would be content to provide St. Bartholomew's Hospital with such an instrument for the performance of difficult surgical operations.

Peel's Property and Income Tax survives the lapse of forty-two years. Detested, denounced, and doomed again and again to extinction, it has crept on by stages of three years—of seven years, but mostly by yearly renewals, and its continuance now stands more firmly rooted than ever as a permanent instrument of revenue.

The gross defects, the grave injustice, the demoralising influence of the Income Tax, are admitted. No statesman has denied them, but statesmen have shirked the adjustment of the tax upon pretences which, though they served as a temporary excuse, can no longer be advanced. Mr. Lowe, indeed, condescended to no lamentations over the moral corruption wrought by the administration of the Income Tax. His reasoning was in this wise: "Traders and professional men complained that they were overtaxed under Schedule D. It might be so, but they had the remedy in their own hands—they were self-assessed, they made their own returns, and he had no idea that, in the aggregate result, the exchequer got more than its due."

That the owners of industrial incomes, feeling that they were wronged by being taxed to the

full amount of their earnings, when, in fact, and as prudence demanded, they saved a third or more, should in many cases, by their self-assessment, protect their purses, even at the cost of their veracity, is lamentable, but not strange; and assuredly a very heavy responsibility rest on the statesmen who, admitting the wrongs inflicted by the law, and the fraud and falsehood they provoked, could year after year allow mal-administration to eat out the heart of English honesty. This cynical disregard for the demoralising effect of a system known to be unjust, and of which the sufferer could evade the oppression only by untruthfulness and fraud, was not professed by all finance ministers. There was, indeed, a general lamentation over the corruption provoked by the Income Tax; but instead of amendments of the tax, Downing Street gave us no other comfort than reasons for patience and submission such as these:—

1. The Income Tax was a war tax, and would not be maintained in time of peace.
2. The Income Tax was an unjust tax, but it should never exceed 2d. in the pound.
3. The Income Tax was unequal in its incidence, but its inequality was of the essence of the tax, and must be encountered, not by amendment, but by extinction.

These assertions have been signally falsified.

(1) The Income Tax has been levied not only in war, but in times of peace. (2) It has been as low as 2d. in the pound, but it has also been as high as 16d. (3) Its inequalities remain unredressed, but the tax is inextinguishable. No tax can be yearly adjusted to the ability of every individual, but equality of burthen may be assigned to every class of income; and, if the State dealt justice to the taxpayer, it would provoke the taxpayer to honesty, and greatly diminish the frightful cases of fraudulent self-assessment recorded in the reports of the Inland Revenue Department. It is terrible to read in the thirteenth report of that department that the returns under Schedule D for the years 1864-65 do not exceed 44 per cent. of the amount they ought to reach.

So much for the corruption of the subject; but what of the officials? They may be—they are, I am sure—as a body distinguished not only for their zeal, but for their integrity; but no human being can administer an unjust law without being deteriorated. Let me exemplify this assertion.

In the year 1846 the Government made a loan to the landed gentry of the country, and it was principally taken up by the Scotch proprietors. It was made payable in the shape of a twenty-two years' annuity, and the document subjoined is a circular issued by the Stamps and Taxes Office in Edinburgh to the assessors and collectors throughout the country :—

“DRAINAGE ACT—CIRCULAR TO COLLECTORS.

“Stamps and Taxes, Edinburgh,

“SIR,

“1st March, 1849.

“It is proper that I apprise you, for your information and guidance, that the Board are of opinion that parties to whom advances have been made under the ‘Drainage Act, 9 & 10 Vict. c. 101,’ are entitled to claim deduction of the property tax on the rent-charges payable by them. The Board, however, do not consider it necessary to offer such deduction to parties paying those rent-charges, but that it will be sufficient to allow it when claimed. I have also to inform you that such parties as claim the deduction due at 10th of October last, but which they omitted to do at that time, may be allowed to claim it at the 5th April next, along with the deduction due at the latter date, *but always in the event only of the parties making the claim.*

(Signed) “A. F.”

This circular may have been issued by the Edinburgh Controller only in obedience to instructions from his superiors in office; but it is nothing more or less than an instruction to collectors—that, whereas certain persons indebted to the State have a right to deduct Income Tax from the whole amount of their payments, yet if these persons, in their unsuspecting ignorance, failed to demand that concession, it was not to be offered or to be

hinted at. The over-payment is to be taken, and no information given unless a specific demand is made for a deduction. This is equivalent to what other Governments have done when they have received their dues in legal coin, and have paid their debts in a base currency. The transactions to which this document referred were the occasion of a special enactment in 1853, under these circumstances. In the Income Tax Act of 1853, the Government introduced a clause providing, with especial reference to the Drainage Annuities of 1846, that those who paid them should be allowed Income Tax *only on the interest*, and not on the principal repaid. This clause was, in the words of the enactment, a "just provision," and yet at the same time the Government refused the benefits of this just provision to their own creditors, under precisely analogous circumstances.

I assert confidently that the able officials who now administer the Law of Inland Revenue would feel greatly relieved, and find their labours sensibly lightened by an adjustment of the Income Tax which, by correcting its injustice, would remove "the almost invincible repugnance on the part of the Commissioners to exercise the power" of enforcing by penalty the statutable but unrighteous demands of the Inland Revenue Department, and create a general disposition in the community at large not only to acquiesce in, but to promote the collection of the National Income.

Having lamented that no statesman had ever undertaken the adjustment of the Income Tax, I ought not to omit recording that Mr. Disraeli did attempt that task in December 1852. In his Budget speech to the new Parliament he announced, as a chief feature of his financial proposals, the correction of the inequalities of the Income Tax.

The Budget was severely criticised by Mr. Gladstone, who, attacking it with great vehemence, directed his opposition especially against the proposed alterations in the Income Tax, and, while admitting the unsuitability of the unreformed tax for permanent use, he declared his insuperable objection to the reconstruction proposed by Mr. Disraeli. On the 16th December a speech of impassioned eloquence by Mr. Gladstone closed the discussion of the Budget. The division immediately taken showed an adverse majority of nineteen. It entailed the resignation of the Government, and Mr. Gladstone met the House in February 1853 as Chancellor of the Exchequer.

I have sometimes wondered how far I may have been unconsciously instrumental in causing this change of Government.

From April 1851 until April 1855 I held office as Deputy Governor and Governor of the Bank of England. In that capacity the transfers of stock from England to Ireland, and *vice versâ*, fell under my observation, and I had remarked that an Irish export of 3 per cent. Stocks and an Irish import

of Terminable Annuities were concurrently progressing at a pace which threatened to domicile in Dublin the whole of the State debts known as "Terminable Annuities." In a letter ("How should an Income Tax be levied?") which I addressed to Mr. Disraeli as Chancellor of the Exchequer in November 1852, I called his particular attention to the defective construction of the Income Tax as shown in this anomalous movement in the National Debt. I also proved the wrong inflicted upon the owners of industrial incomes, and I suggested remedial measures based upon the principle that an "Income Tax should be charged upon income and not upon capital." Mr. Disraeli had my letter in his hands for too brief a time to have mastered the many bearings of so complicated a question, but he appreciated the iniquity of the existing system, and proclaimed his desire to reform it.

The battle over the Budget of December 1852 was one of the many memorable conflicts which signalised the life-long antagonism between Mr. Gladstone and Mr. Disraeli. Party policy is mischievous, but far more mischievous is a policy in which personal rivalry, personal enmity, and personal opposition are the dominant motives of the political leaders, who enlist their followers nominally in the cause of party, really in the cause of rival chiefs. To overthrow a rival, measures of public utility have been rejected and

cast aside. To distance a rival, measures have been projected and carried, far more pernicious than those which when presented by an opponent had been energetically resisted. Of the two distinguished men whose protracted political antagonism occupy so large a space in our history, it would be hard to say which was the most inveterate in his animosity towards the other, but it can be said with absolute certainty that the consequence of their strife has been disastrous to the true interests of the country.

Early in the Session of 1861 (19th February), I moved for "a Committee to enquire into the mode of assessing and collecting the Income and Property Tax, and whether any mode of levying the same so as to render the tax more equitable can be adopted." The motion, determinedly opposed by Mr. Gladstone, then Chancellor of the Exchequer, was carried by 131 ayes, against 127 noes. In the formation of the Committee I had great difficulties: the selection of names was, as usual, arranged between the respective Whips; and as both political parties were opposed to me, names I had proposed were struck out and replaced by those of men unfavourably affected to the enquiry. I soon found that the Committee generally had no adequate conception of my plan, and for their information I left the chair, and for several days submitted myself as a witness to the hostile and skilful examination of Mr. Lowe,

Mr. Cardwell, Mr. Gladstone, and Sir Stafford Northcote. Their ingenious and searching questions failed, however, to entangle me in any controversial snares, and left me well satisfied with the soundness of my principle. Before Mr. Lowe's rapid interrogatories, great circumspection was requisite. A practised examiner and accomplished dialectician—his questions followed each other like lightning. I laid down as a rule that the portion of income saved from expenditure and become capital should not be taxed. Mr. Lowe challenged me to define "savings." "Is it (he asked) what a man can save—what he ought to save—or what he does save?" I hesitated in my reply, but I declined impaling myself upon either of the alternatives presented to my exclusive adoption. "Savings," as I explained (dealing with classes and not with individuals), "are the portions of income which men *can* save—which men *ought* to save, and which men *do* save." Varying widely as the answers would be as touching persons, there is an absolute concurrence of power, duty, and practice exhibited in the acts of the whole community.

The evidence taken by the Income Tax Committee of 1861 afforded ample material for the Report which I presented late in the Session; but the Committee set it aside in order to adopt another, affirming that the objections urged against the tax were objections to its nature and

essence rather than to the particular shape given to it.

The absence of any tangible pretence for the judgment of the Income Tax Committee of 1861 strengthened my resolution to urge the consideration of reform upon the House of Commons, and in June 1864 I succeeded in getting a hearing upon "Direct and Indirect Taxation," and moved, "That the inequalities and injustice attending the operation of the existing Property and Income Tax disqualify it for being continuously reimposed in its present form as one of the means of levying the national revenue." Unsupported by either political party, my motion was, of course, negatived after a brief discussion which left me still more hopeful of future success.

I need not enlarge upon the difficulty which an independent member has in bringing a question before the House: the rush of members to ballot for the opportunity of moving a Resolution on Tuesdays or Fridays, or of presenting a Bill for second reading on a Wednesday, has been of late years intensified by the tactics of the Irish, who occupy the Notices of Motions so largely, that by mere accident does an English member obtain the essential and coveted priority for either Bill or Resolution. Years may pass without a Resolution placed on the Notice List being brought to the judgment of the House, or a Bill read formally the first time being brought to discussion and

division on a second reading. These Parliamentary difficulties are aggravated when the Government do not scruple (under an alleged pressure of public business) to seize upon the Wednesdays sittings, and even upon the time allotted to private members on Tuesdays and Fridays, or, taking the morning sitting, to count the House out in the evening.

Confronted by these obstructions, all that I have been able to accomplish has been the preparation and presentation to the House of Commons of a Bill which, under the title of "Income Tax Administration Amendment," has been several years before the House without reaching a discussion on a second reading. The yearly reproduction of the Bill has enabled me, however, to profit by hostile criticism and by friendly advice, private and official, and for the Bill as printed last year I invite the severest scrutiny.

Before I give the text of the Bill, I am bound to prove the necessity for such a measure. The statesmen who have unremittingly opposed the reconstruction of the Income Tax have unreservedly admitted that, as it stands, it is unsuitable as a permanent source of revenue. No one has made that declaration more emphatically than Mr. Gladstone, and the conclusion would be that the tax should cease conformably with his arguments and promises. Moreover, in 1873, Mr. Gladstone offered the abandonment of the Tax as an inducement to

the constituencies to continue their confidence in his Administration.

Agreeing that the tax, as it stands, is unfit for permanent use, I deny that it cannot be reformed, and I will prove that it cannot be dispensed with.

The most forcible argument for the adoption of an Income Tax is this, "that by no other means can be brought under contribution to the National Exchequer vast properties which are justly taxable, inasmuch as they largely benefit by the peace, liberty, and order which are ensured by the wise application of the national resources." The large revenues of absentees are in this category. Many properties in England and Ireland are so situated. In the course of the generation just passed away, a single wealthy absentee drew from this country millions to be expended in the luxurious capital of France, and which, but for the Income Tax, would have contributed nothing to the support of the government of this country.

The rents of the estates of absentees are taxed under Schedule A, but what of the profits assessed under Schedule D? The amount assessed under Schedule D in 1881 was £255,355,000. Ought not the earnings and profits which that sum represents to be charged with a due portion of the cost of Government? It might be said that while the House Tax exists, no one can escape taxation who lives in this country; he must lodge

somewhere, and his lodging is taxed. But how inadequately would a mere lodgers' tax represent the share of the burthen rightfully falling upon the possessors of colossal fortunes, created in trade and manufactures, and with their growth extending still further the trade and manufactures by which they have been enriched. Profits under Schedule D were assessed in Great Britain :—

1867	.	.	.	.	.	£173,088,000
1881	.	.	.	.	.	£255,355,000

Thus it appears that in fourteen years the assessments under Schedule D increased 50 per cent.; and this enormous wealth, chiefly derived from profits on trade, can be reached only through the Income Tax.

A merchant invests his capital in home manufactures which he exports, and in foreign goods which he imports. His property may be on the seas, in warehouses, or in the acceptances of the customers whom he supplies. As he realises, he re-invests, and his property may grow, year by year, from £20,000 to £25,000, to £30,000, to £50,000, to £100,000, and yet, but for the Income Tax, he might almost wholly escape contributing to the national exchequer. You may think at any rate to tax his property at his death through the legacy or succession duty, but be not too sure; he may do what has been done before—divide his property among his children and relations, and,

reserving an annuity for his own life, convey his accumulated wealth to the next generation without sharing a single pound with the Chancellor of the Exchequer.

I have shown that the Income Tax cannot be dispensed with; I have to prove that it can be amended, and that by the application of no novel principle, but of rules already accepted in other departments of the State.

The prominent defects of the Income Tax as now administered are these:—

1. The portion of land-rent and the portion of house-rent respectively applied to the maintenance of the property is taxed, though not available as income.

2. Industrial earnings are taxed to their full extent, although their dependence on the life and efficiency of those whose labour is essential to their production, requires that a portion be annually saved, such portion when invested as capital being taxed in its subsequent products.

3. Capital in the course of repayment through the working of mines in which it was invested is taxed, though not available as income.

4. Capital given as the consideration for terminable annuities is taxed in the annuity through which it is repaid with interest.

I find the remedies for these defects suggested by our own legislation.

“The Valuation of Property (Metropolis) Act,

1869," took as its principle the rule adopted previously and since in every Bill for ensuring uniformity in local rating, that in order to tax every man according to his ability it was essential "to charge such portions only of the rents of property as remain after the expenditure necessary to maintain the property unimpaired." This principle of only taxing income so that the capital value remains unimpaired, is applicable also to mines, to terminable annuities, and even by analogy to industrial earnings. And it has been outrageously violated through the maladministration of the Income Tax.

£1200 incoming as interest of money yields

£1200 net.

£1200 incoming as rent of land yields

£1100 net.

£1200 incoming as rent of houses yields

£1000 net.

The Government taxes these receipts alike at £1200, and it is obvious that in the case of land £100, and in the case of houses £200, is wrongfully charged with a tax which the owner can only pay out of capital.

Local rates can by law be levied in these cases on £1100 as the rateable value of land, and on £1000 as the rateable value of houses. The profits of the merchant, tradesman, and professional man, together with stipends and salaries, are all charged with Income Tax at their full

amount; whereas equity requires such an abatement from the amount of industrial earnings as should adjust the burthen thrown upon intelligence and skill as compared with property.

The wrong involved in taxing savings is admitted. The 54th section of 16 & 17 Vict cap. 34, provides for an abatement of one-sixth of his assessment to any person who shall have paid so much as an annual premium on a life assurance; but this admission "that savings should not be taxed" is hampered with a limitation to one-sixth part, and a ridiculous proviso that the savings shall be invested in a life policy.

An actuarial computation of the share of purely industrial earnings which should be saved for investment, and, therefore, be exempt from taxation, reaches a somewhat higher proportion; but I have assumed one-third as an adequate abatement from the receipts of purely industrial earnings, and from such a portion of the earnings of traders as exceeds the interest at 4 per cent. upon their capital.

Although the encroachment upon industrial gains is the most glaring misdeed of the Income Tax, it is in the owners of lands and houses that we find the greatest sufferers.

A very large proportion of the landed revenues of the country are absorbed by the claims of mortgages and settlements; old county families have been burthened by the process of settling at

marriage, and borrowing to provide for younger children, until the owner of the estate was reduced to the condition of a mere administrator of a property of which the portion he enjoyed was but a fraction.

Imagine an estate of £2000 gross rental, and assessed at that amount to the Income Tax. It is chargeable with £1600 a year interest on a mortgage; there remains £400, of which £200 are spent in outgoings for maintenance, leaving £200 for the fruition of the landowner. But he is charged with Income Tax on £400, so that he pays double the Income Tax which is paid by the capitalist on the interest of his mortgage received without trouble or risk.

The instance I have assumed is by no means an extreme one. It is quite possible for an impoverished landowner to be so burthened as to become chargeable with Income Tax on a residue of gross rental, insufficient even for the maintenance of the estate. Rents have of late years been so seriously reduced that cases of Income Tax being charged upon the outgoings when there is no residue wherewith to meet the charge must, I fear, be only too common.

The aggravated pressure of the Income Tax on embarrassed land-owners is experienced also by embarrassed house-owners. The rent in either case is divisible between the nominal proprietor and the mortgagee. The mortgagee has the prior

claim and pays Income Tax only on the actual cash which he receives as interest, while the nominal proprietor chargeable with the tax upon the cost of maintenance must pay at a heavier ratio upon his residue, if he have one, or if he have no residue he must satisfy the Inland Revenue officers out of other property.

This monstrous, this cruel injustice would be cured by assimilating the levy of Queen's Taxes to the rule of local rating, and assessing the tax not upon the "gross," but upon the "rateable" value. This course would be no innovation. The Local Government Board have, in all legislation for local rates, constituted the rateable or net value as the legitimate standard or measure for assessment; the Home Department turn to the rateable value to determine the qualification of guardians, jurors, and councillors; and recently an important decision has been given in the House of Lords which definitely assigns to "annual value" its true and equitable sense of "*rateable value*."

The judgment of the House of Lords in the case of *Dobbs v. The Grand Junction Waterworks Company* has an importance far exceeding its primary result; for the fact which it established must govern the future exactions not only of the water companies, but of the Inland Revenue.

The water company were legally entitled to levy rates on the "annual value" of the houses they supplied with water; but (emulating the

despotism of Somerset House) they claimed rates levied upon the "gross value," and the House of Lords was appealed to for the determination of their right.

In the judgment delivered by Lord Bramwell, he used these words:—

"What is the meaning of 'Annual Value'? We may safely adopt the definition in 6 & 7 Will. IV. cap. 96 (1836), viz. the rent at which it would let free of all usual tenants' rates and taxes, and deducting therefrom the probable average annual cost of the repairs, insurance, and other expenses, if any, necessary to maintain them in a state to command such rent." This is their value. "This is the value—the net, the only value. . . . Value means 'net value,' 'net value' means 'value.' . . . Gross value is different from value; it is, though a convenient, an inaccurate expression, like 'gross profits.' The difference between what a thing costs and the larger sum it sells for is not profit, if the buying and selling are attended with expense to the trader. Value is 'net value,' and involves those deductions from rent which the appellant claims."

This clear and concise definition of Annual Value is invaluable, and must have important consequences. How does it affect Somerset House and its administration of the Queen's Taxes?

The Income Tax is levied in virtue primarily of the Act 5 & 6 Vict. cap. 35, entitled "An Act

granting to Her Majesty duties on *Profits* arising from Property, Professions, Trades and Offices"; and the Act provides that Income Tax shall be charged (Sch. A) upon the *annual value* of all lands and tenements; (Sch. C) upon all *profits* arising from annuities, dividends, &c.; and (Sch. D) upon the *annual profits or gains* arising or accruing from any profession, trade, or employment.

Notoriously, the administration of the tax as regards these schedules has not harmonised with the now authoritative definition of the sense of "annual value" and "profits." The irregularity with which poor-rates were levied forty years since led to corresponding irregularities in the levy of the Income Tax; but with the operation of the Valuation Acts, and especially the "Valuation of Property (Metropolis) Act," 1869, a great advance has been made in the accuracy of the assessment lists for local and Imperial taxation. Somerset House, while co-operating with the local authorities in the preparation of more adequate estimates of value, took, to the special advantage of the Crown, the course of levying the Queen's Taxes upon the gross rent or value. In the year 1869, the "Valuation of Property (Metropolis) Act," 32 & 33 Vict., was passed, of which the 45th clause constituted a valuation list as a common test of value for both local rates and Queen's taxes; but, while providing that "every rate

shall be made in respect of the rateable value," it provides that, in construing the Income Tax Acts, the words "annual value" shall be deemed to mean the "gross value." In extenuation of this monstrous perversion of language, of these contradictory interpretations of "annual value" in the same clause, it may be alleged that the Income Tax was a temporary tax, and as the "Valuation (Metropolis) Act" would of necessity be superseded by a general measure for all England, it may have been thought expedient for so brief a period to vary its incidence.

The official attempt to incorporate the same nefarious clause in subsequent Valuation Bills has been in every instance defeated; and the clause remains in the "Valuation (Metropolis) Act" only until a general Act is passed which will provide for all England a common basis and a common measure of value for the purposes of local and Imperial taxation. Such an Act cannot fail to provide that, in accordance with the judgment of the House of Lords, "annual value" shall be the "rateable value," assessable alike for local rates and Imperial taxes.

A proposal to assess local rates upon the gross value or rental might have been supported by the plea that the rental paid by the occupier is the measure of his ability; but to assess local rates upon the net or rateable value, and Income Tax upon the gross rental, including (say, out of

£1200, £200) moneys which the owner never received as profits, and of whose ability it can therefore be no test, was the climax of absurdity attained in the "Valuation (Metropolis) Act, 1869."

I was temporarily out of the House of Commons in the Parliament of 1868 to 1874: unable, therefore, to protect the interests of my present constituents, upon whom the heavy hand of the Inland Revenue presses with the statutable authority of the Act of 1869. But as regards the country outside the metropolis, if another Hampden were to arise, and, encouraged by Mr. Dobbs' success, refuse to pay upon the gross assessment of his house an Income Tax granted to the Crown, to be charged upon annual value or profits, I do not see how the recent decision could be reversed, or the House of Lords avoid giving judgment against Somerset House, as they had previously done against the waterworks company.

The principle of Lord Bramwell's judgment goes far beyond the assessment of house values. It applies to the whole category of matters taxable. From the product of each an abatement is due adequate to ensure the maintenance, the repair, the renewal or the equivalent of the productive material or person. It requires the correction of all the misdeeds of Somerset House. What are they? The Administration have taxed the cost of maintenance, varying on various properties, but capable of classification and adjustment; they have

taxed capital in course of repayment and property in process of exhaustion; they have taxed alike idle and industrial incomes; they have taxed to the last farthing the earnings due to the brain of the lawyer and physician, to the skill of the artist and the enterprise of the trader; they have made one rule for the debtors and another for the creditors of the State; they have provoked the tax-payer to dishonesty by unjust treatment, and have dishonoured the service of the Crown by making the officials instruments of oppression.

I purposely entitle the Bill bearing, besides my own, the names of Sir Charles Forster, Mr. E. A. Leatham, and Mr. Whitley, a "Bill to Amend the *Administration* of the Income Tax," because with an Income Tax, in its proper sense, I have no quarrel; on the contrary I hold that a national income is most fitly raised by contributions from individual incomes levied by an equable assessment upon every individual. An Income Tax in this country cannot be perfectly levied without the willing and conscientious concurrence of the people: for self-assessment is an important feature in the system. A successful Income Tax implies an intelligent and conscientious people, and I believe that our people do possess these qualities in an exceptional degree. Not a week passes without an announcement of the receipt by the Exchequer of "conscience money," of money, *i.e.*, spontaneously remitted by some person whom

the administration had not reached, but whose conscience led him to discharge his obligation to the State. I never heard of a similar case of impulsive honesty in any of the countries who, following our example for good and evil, copied our Income Tax half a century too soon.

The increased intelligence of this country has warranted an improvement in the treatment formerly proposed for Schedule D, and in so doing I remove one of the few objections made to my scheme in 1861. Instead of an abatement of one-third (before assessment) of industrial gains in which capital is engaged, I assign the abatement to that portion only which exceeds the interest at four per cent. of the capital engaged.

Here is the Bill as presented in the last session of Parliament:—

A BILL TO AMEND THE ADMINISTRATION OF THE INCOME TAX.

Whereas it is expedient that the principle of an equable and equitable assessment be applied in levying all rates and taxes, whether local or imperial:

And whereas in levying local taxation the principle is generally adopted of charging the annual values of property at their net or rateable value, *i.e.* upon the value of the occupation after deducting from the gross value all outgoings

necessary to maintain the value of the hereditament: Leach

And whereas it is contrary to the nature of income tax that it be charged both on the interest which is income and on the capital which produces the income :

And whereas industrial earnings, on the same principle, require, previously to their being charged with income tax, an abatement in compensation of the exhaustion of productive power inseparable from labour : 8?

Be it therefore enacted by the Queen's most Excellent Majesty, by and with the advice and consent of the Lords Spiritual and Temporal, and Commons, in this present Parliament assembled, and by the authority of the same, as follows:—

1. The annual value of lands, houses, tenements, and hereditaments chargeable with income tax shall be the rateable value of all such houses, lands, tenements, and hereditaments (*vide* Schedule A).

2. The proportion of the annual value of such lands, tenements, and hereditaments as are chargeable with income tax in respect of the occupation thereof under Schedule B shall be the same proportion of the rateable value thereof.

3. When a terminable annuity or other periodical payment shall comprise an advance or repayment of capital, income tax shall be charged on the annual interest only, and not on the capital in such annuity.

4. Industrial earnings derived from labour apart from the use of capital, in any profession, office, or occupation of profit, shall be entitled, prior to assessment, to an abatement of *one-third* of such earnings (*vide* Schedule B, Example A).

5. Industrial earnings derived from labour applied to the use of capital, and being the net profits of any person, firm, partnership, or company engaged in any trade, manufacture, adventure, or concern, shall be entitled (prior to assessment) to an abatement of *one-third* of the labour gains included in such profits, *i.e.* to an abatement of *one-third* of the excess (if any) of such profits above the interest value at four per centum of the capital in such trade, manufacture, adventure, or concern (*vide* Schedule B, Example B).

6. In order to the assessing of the duties payable under the two preceding sections, the Commissioners of Inland Revenue shall include in the rules and regulations appended to the forms of returns under Schedule D the instructions set forth in the Schedule to this Act, and the amount resulting from a statement in accordance with such instructions shall be the amount liable to assessment.

7. This Act shall not come into operation until the *first day of April one thousand eight hundred and eighty-five*.

SCHEDULE A.

EXAMPLE showing the rate of Deduction from the Gross Value in order to obtain the Rateable Value for Taxation.

	Per cent. or Proportion.	
1. Land without buildings . . .	5 or	$\frac{1}{20}$
2. Land with buildings (farms) . .	10	$\frac{1}{10}$
3. Houses and buildings of £40 and upwards, gross value . . .	$16\frac{2}{3}$	$\frac{1}{6}$
4. Buildings without land of £40 and upwards, gross value . .	$16\frac{2}{3}$	$\frac{1}{6}$
5. Buildings without land, above £20 and under £40 gross value	20	$\frac{1}{5}$
6. Houses and buildings without land, above £20 and under £40 gross value	20	$\frac{1}{5}$
7. Houses and buildings without land of under £20 gross value	25	$\frac{1}{4}$
8. Mills and manufactories . . .	$33\frac{1}{3}$	$\frac{1}{3}$
9. The deductions on any hereditaments not in- cluded above to be determined according to the circumstances of the class and case.		

SCHEDULE B.

INSTRUCTIONS for ascertaining the amount to be assessed under Schedule D in respect of the Interest, Gains, and Profits accruing from any

Profession, Trade, Manufacture, Adventure, or
Employment.

Example A.

Profits for the year ending	1884
from the {profession of a	£1050 0 0
{trade of a	

Computation for Assessment.

Interest on own capital {	£ nil . £	
(if any)		
Labour gains	£1050 0 0	
Abate one-third	350 0 0	
		700 0 0
Amount to be returned for {	£	700 0 0
assessment		

Example B.

Profits for the year ending	1884
from the {profession of a	£1230 0 0
{trade of a	

Computation for Assessment.

Interest on own capi- {	£15,000 at {	600 0 0
tal (if any)	4 per cent. £ {	
Labour gains	£630 0 0	
Abate one-third	210 0 0	
		420 0 0
Amount to be returned for {	£	1020 0 0
assessment		

N.B.—The figures here inserted are only explanatory.

Within the brief compass of the Bill is comprised a summary of this article. The preamble affirms the principle and recites the argument of the Bill, while the five clauses describe the processes for carrying it into effect. As it stands, the Bill (unofficially drawn), can only be the foundation of a reconstruction, but that it is sound and practicable I am confident. I have never shrunk from discussion, but my challenges have been unanswered, for my chief difficulty has lain in official apathy and a disposition to give precedence to measures not comparable in importance with the removal of evils which impair the dignity of the Crown, the honour of its public servants, and the honesty of the people.

I cannot close this article without recording my deep satisfaction that, thanks to the definition of "annual value" by the House of Lords in Dobbs' case, the struggle which I have sustained for thirty years against fiscal misrule is virtually ended and the battle logically won.

JOHN G. HUBBARD.

LOCAL AND IMPERIAL TAXATION.



DISCUSSION.—*25th April, 1884.*

Mr. HUBBARD, in rising to call the attention of the House to the composition of the Public Revenue, and move—

“That, accepting the principle which would adjust every man’s taxation to his ability, this House desires that local and Imperial Taxation shall (whenever they are coincident) be levied upon a common basis and by a common measure of value; that Imperial Taxes shall, as regards the products of property, be (like local rates) charged upon their net or rateable annual value; and that industrial incomes shall be allowed, prior to assessment for Income Tax, an abatement, in compensation of their perishable nature”—

said, the question was one which affected several very important interests in the country, and had an important bearing, not only upon the levying of Imperial and local taxation, but also upon their administration and expenditure. Taxation and revenue were too often regarded as con-

vertible terms; and the amounts of the entries under the head of Expenditure in the Official Statements of "Public Income and Expenditure" were assumed to be derived from the taxation of the country. This was very far from being the case. Of the £89,000,000 standing under the head of Income, £12,000,000 are repayments and cross entries, reducing the actual "Income" in 1883-4 to £77,000,000, from which again must be deducted the revenue from "Crown Services," "Crown Rights," and "Crown Lands." The sum actually raised by taxation was £73,000,000, of which the Income Tax contributed £12,000,000. It was especially to the Income Tax that he invited the attention of the House through the Resolution, which proposed to adjust its assessment to the principle upon which local rates to the amount of £28,000,000 are already levied. How should the National Income be raised? To his mind, nothing was more obvious than that it should be the result of an aggregation of certain portions taken rateably from all individual incomes. The State, in the levying of that income, ought to be guided by the principle laid down by Adam Smith, "that every subject should be taxed in proportion to his ability"—that was, "in proportion to the revenue he enjoyed under the protection of the State;" and it will be observed that the ability to expend, or practically expenditure, is the interpretation of Adam Smith's axiom. The Income Tax is un-

happily not levied upon this sound principle, for it taxes at their nominal amounts of £1200 incomes so widely different as these:—A capitalist has a mortgage yielding him net £1200; a landowner out of a nominal rental of £1200 has £1100 net; a house-owner out of £1200 has but £1000 net; and a mill-owner out of a rental of £1200 has £800 net. This inequality was the more marked in the case of incomes derived from landed property, which might be so heavily mortgaged, or otherwise encumbered, that the nominal owner, when he had paid interest on the mortgages and tax on the supposed income, would have hardly any residue. Take the case of a house owner with his nominal rental of £1200 reduced by outgoings to £900. He may owe £800 as interest on a mortgage, and he has to pay out of his net residue of £100, Income Tax on £300, or in a ratio thrice as large as that of the capitalist mortgagee. A landowner with a burthened property would be in the same position or worse, for with the present reduction of rents he may be compelled to pay Income Tax on the outgoings of his land without having any residue on which to live. The remedy was obvious, simply to levy the taxation not on the nominal value, but on the rateable net value. Passing from the owners of property of this nature, he would refer to the case of owners of industrial incomes, those living by the exercise of their skill and intelligence, such

as barristers or officials of that House, who were taxed upon the whole of their receipts. He would ask, on behalf of all classes earning industrial incomes, such an amount of remission of taxation as would place them in a position of safety as regarded the future—that was, in the same position relatively as the owners of real property, who, in the case of local rates, enjoyed reductions of from 10 to 33 per cent. His proposal was that all purely industrial gains be allowed an abatement of one-third to place them on an equality with the net results of the rents of real property. This concession would be nothing more than carrying out the principles enunciated by Adam Smith, and it was merely extending to industrial earnings the same principle of assessment which the House had already adopted on the subject of local taxation. He wanted to know why was it that the principle which had been declared by the Legislature to be sound and just, scientifically true, and equal as between individuals in respect of their property assessed for Local Rates, was to be denied in the assessment of the same properties for the Queen's Taxes? The right hon. gentleman the Secretary of State for the Home Department would know that, in his department, in the case of determining licences or qualifications which depended upon a certain amount of value, the decisions were determined on the rateable value; and he would, therefore, call upon the right hon. gentleman to

support him in extending the same enlightened policy to the levy of taxes. He would now refer to the important decision of the House of Lords in the case of "*Dobbs v. The Grand Junction Waterworks Company*"—a decision which gave to his cause a force which no indifference or sophistry could resist. In delivering that decision Lord Bramwell said—

"What is the meaning of 'Annual Value'? We may safely adopt the definition (in 6 & 7 Will. IV., cap. 96, 1836), viz., the rent at which it would let free of all usual tenants' rates and taxes, and deducting therefrom the probable average annual cost of the repairs, insurance, and other expenses, if any, necessary to maintain them in a state to command such rent. This is their value, this is the value, the net, the only value, ... 'Value' means 'net value,' 'net value' means 'value.'"

It was upon that decision that he placed his hope and confidence; and he thought the House, and he trusted the Government, would not continue to shut their ears and eyes to the evidence of such a decision with reference to the administration of that important branch of the Revenue which constituted the Queen's taxes. It was right to deduct from industrial earnings previous to their assessment the proportion which would be equivalent to their renovation or permanence. The mill-owner was allowed a deduction of 33 per cent. on his

machinery ; but the professional man, who might be called “a human mill,” as perishable as the other, was charged upon the gross income he received. The man himself could not be replaced, but his income might be ; he could secure to his family the same amount which he could now spare out of his earnings. As regarded the question of what the amount should be, very able actuaries and students of scientific taxation had determined that one-half of an industrial income would not be an excessive amount to allow as a reduction before taxation. His (Mr. Hubbard’s) calculation was that a practising barrister earning £1200 a-year, should lay by one-third of it, say, in a policy of insurance, as a provision for his family. That would be simply carrying out a principle which had been adopted—namely to allow a deduction from income not exceeding one-sixth for Income Tax. The only defect in that clause was that one-sixth was not enough ; it should not be less than one-third ; and it was also absurd to bind people down to insurance as the only means of providing for their families. Government, and the Prime Minister himself, had already accepted the principle in the case of a premium for insurance. One advantage of the acceptance of the proposal which he placed before the House would be that it would bring into harmony the two great branches of public Revenue—the local rates amounting to £28,000,000, and the Income Tax to

£10,000,000 or £12,000,000 more; and it would bring them under the same valuation list and a common collection, which would be a source of great economy, and save the taxpayer a large amount of molestation, as he would have one instead of two visits from the collector. The necessity for introducing some method which would relieve the taxpayer under the Income Tax was unavoidable, for the amount of demoralisation it had caused was hardly to be described. In a not very distant Report of the Inland Revenue Commissioners, it was stated that of the amounts which should be returned under Schedule D, only 44 per cent. came under charge. That was a frightful picture, for as Schedule D was the result of self-assessment, it really pointed to fraud. Moreover, this violation of honesty and truth in the Return was provoked by the injustice of the tax itself. So completely had some become reconciled to these disgraceful consequences of the tax that Mr. Lowe, when Chancellor of the Exchequer, stated that people had the remedy in their own hands; and why should the Government care about it? He protested against the continuance of a system which demoralised both the administrators and the victims of the tax. Instances had been known of high officials counselling their subordinates not to inform the public of their rights, but to allow the taxpayer to pay far beyond his legal liability. But was the Income Tax a tax which could be done

away with ? The Prime Minister, some years ago, gave the people to understand that the Income Tax would be repealed ; and he mentioned the other day, in a letter printed in *The Times*, that at the time he expressed that opinion the finances of the country were in such a state as to make the repeal of the Income Tax a very probable event. He (Mr. Hubbard) had no doubt the Prime Minister said that with perfect sincerity ; but what he (Mr. Hubbard) had to say was, that he was not the best doctor who killed the patient. The best doctor was he who cured. If the Income Tax were repealed, he wanted to know by what means they would bring the enormous wealth of traders under contribution to the service of the State. The Income Tax was the only tax which reached the owners of vast incomes who might spend them in dissipation in Paris or elsewhere abroad ; and it was the only way of reaching the large corporations. What was required was a re-adjustment of the tax ; and he was in favour of the tax being maintained, because it was the only means by which all classes of the community could, according to their ability, be brought under a charge for the general service of the State. It was remarked that the effect of his proposal would be to increase the burdens of the large capitalists, while lightening those of other classes. That was undoubtedly so ; but no one could justly complain if those who were undertaxed had their burdens equalised

with those who were overtaxed. No doubt, one class would feel the operation of the change, and that was the rich capitalist class; they would be more heavily charged, while, on the other hand, it would relieve those who lived by their brains and industry. It would weigh heavily on the idle permanent income and relieve the industrial but perishable income. You cannot re-adjust an unequally distributed burthen without its pressing upon some more severely than it did before. If A, E, I, O and U are engaged to carry between them a given load, upon equal terms, and it is presently discovered that A, E and I have been carrying more than their share, it is obvious that O and U will, under an equal distribution of the load, carry more than they did before. In this matter he had been moved solely by a desire to do his duty for the benefit of the country; and he trusted the Prime Minister would see his way to the introduction of a measure which would harmonise and combine the system of public taxes and local rates so as to make them more just and satisfactory. He trusted the right hon. gentleman the Chancellor of the Exchequer also would be able to approve of a scheme which their own experienced officials were quite competent to carry out, which would remove all the inequalities and grievances under which the taxpayers now labour, and would substitute, for a system unjust, unequal, and demoralising, one which would raise a portion of

the Revenue easily and effectively as regards the Crown, acceptably and satisfactorily as regards the taxpayer. The right hon. gentleman concluded by moving the resolution of which he had given notice.

Mr. TOMLINSON seconded the motion.

SEC. 1.—Mr. GLADSTONE: My remarks on the speech of the right hon. gentleman will be partly critical and partly apologetic, but before I proceed to them I wish to make an observation as to the circumstances under which this motion has been made. Yesterday, with perfect good conscience, the right hon. gentleman made a motion, and stated to the House that he had to call attention to a definite matter of urgent public importance (hear, hear), and full forty gentlemen from the division of the House opposite to that in which I have honour to sit rose to their feet to support the assertion of the right hon. gentleman that the discussion he proposed to bring on to-night was a definite matter of urgent public importance. The right hon. gentleman has brought on his motion (hear), has delivered his speech, and the numbers present in that division of the House which yielded yesterday with such ease forty members to make that assertion have varied from between three to six. (Mr. WARTON.—No.) I am stating matters of fact which cannot be shaken by negation that proceeds from utter forgetfulness of fact. The numbers have varied between three and six—I should say

seven ; but out of the seven some have been here in anticipation of an interesting and, I think, rather urgent subject, the discussion of which was likely to follow. That is a curious illustration of the state of feeling——(Interruption). An hon. baronet opposite interrupts me.

Mr. WARTON : No ; it was I who did so.

Mr. GLADSTONE : I beg pardon ; it was the hon. member for Bridport, who, in the exercise of his traditional privilege of disorder, interrupted me. (“Hear,” and a laugh.)

Mr. WARTON : I rise to explain my interruption. (Cries of “Order.”)

The SPEAKER : The Prime Minister is in possession of the House. (Hear, hear.)

Mr. GLADSTONE : There was great sympathy with my right hon. friend, on the ground that if he brought forward his motion last night he would not have fair play, because he would have been liable to have the discussion mingled with other subjects. There is, however, one advantage which my right hon. friend would at least have had, and that is that he would have had the House pretty full to hear his statement, instead of the lank and lean attendance which has distinguished the portion of the House which was last night so deeply interested in the matter. But it is somewhat remarkable that the most fervent appeal made last night from the front Bench opposite came from the right hon. gentleman the late First Lord of the Admi-

rality (Mr. W. H. Smith), who testifies so deep and philanthropic an interest in the motion of the right hon. gentleman that he has not thought fit to honour him with his presence during a single sentence of his speech. These appear to me to be very extraordinary circumstances. The hon. and learned member for Bridport, or any other member, may comment on them as they think fit; but they seem to me extraordinary circumstances in connection with the arrangement of business in this House.

I am very sorry that the right hon. gentleman has not had greater justice done to him, on a subject, too, upon which I am sure he has bestowed the greatest pains; for there is no one in this House who is more able to explain his views on any question connected with political economy with clearness and force than is the right hon. gentleman.

The right hon. gentleman has devoted himself to this matter with a chivalrous loyalty. He began upon it shortly after his entrance into Parliament, now more than twenty years ago; and I believe that he will pursue it to the death. It reminds me of the Crusades. They began somewhere about the year 1100, and they continued at intervals for about two and a-half centuries; and if the condition of human life, now so much less happy than in the patriarchal age, permitted the right hon. gentleman to extend his Parliamentary career to a period as lengthened as that embraced

by the Crusades, I am sure that at the end of two centuries and a-half the right hon. gentleman would still be found arguing with undeniable force and all his clearness of demonstration in favour of his plan for the reconstruction of the Income Tax.

SEC. 2.—But the right hon. gentleman must be content to look to the interest of this question. He has had some experience of it, and what has his experience been. In 1861 I had the honour to be Chancellor of the Exchequer, and then the right hon. gentleman made a speech of much the same character as that which he has delivered to-night, and, if I remember aright, in greater detail. As Chancellor of the Exchequer, having had a responsible experience of this matter which the right hon. gentleman has never had, I opposed his motion, but he beat me by a majority of four, and obtained what was then the great object of his desire—a Select Committee to examine into his plans. Before that Committee the right hon. gentleman developed his views with a fulness not here permitted. He called the most distinguished advocates of those views to support them in evidence; he made no complaint as to the impartiality or the ability of that Committee, and when I point out that, not to mention others, there sat on the Committee such men as my noble friend Lord Sherbrooke and as the right hon. Baronet the Member for North Devon (Sir Stafford Northcote), it is plain that the House of Commons had done its best to make it an

efficient and able Committee. That Committee produced a considerable Blue Book. The right hon. gentleman himself was Chairman of that Committee, and had every advantage of bringing forward and pressing upon the minds of the Committee all the arguments that he has adumbrated and necessarily only adumbrated—to-night. And what was the result? When the evidence had been taken, the right hon. gentleman prepared a most elaborate and most able Report, setting forth these same views. The Committee were quite unable to accept the Report of their Chairman. They stated with sufficient frankness in the brief Report which they presented to the House that they had arrived at the conclusion that the plan proposed by their Chairman did not afford a basis for the practicable and equitable readjustment of the Income Tax. That was the effect produced on a Committee composed of the most able men by a full and accurate and open examination of the subject. And after having carried his motion for a Committee, and failed to convince his Committee, which rejected his Report and adopted instead of it a Report drawn up by the right hon. Member for North Devon, the right hon. gentleman now comes here and thinks that on the strength of a speech, however ingenious and clever, the House is to embark itself in the desperate undertaking that he invites it to enter upon.

Mr. J. G. HUBBARD: I wish to explain that it is

not the same scheme, and it is a new Parliament, without prejudices.

Mr. GLADSTONE : It is a new Parliament, and a new generation, if you like ; but I have not done with my history of the case, and, at any rate, there is this to be said, that the Leader of the Opposition and of the Party to which the right hon. gentleman belongs is the same gentleman who drew the Report from which I have just made a quotation. Whether it is a new or an old Parliament, it, of course, has a perfect right to change its mind if it sees fit. What I have pointed out is simply this, not that we are bound by the acts of a former Parliament, but that a former Parliament did make a thorough and systematic examination before the right hon. gentleman's Committee, that being a Committee of which he cannot complain, and after that examination rejected the plan of the right hon. gentleman, and adopted a report on a completely different basis. I am reminded that the right hon. gentleman was a witness before that Committee as well as its Chairman, so that he had every opportunity of setting forth his views with the utmost advantage, and he failed in no part of his duty. It is right that I should mention that when it came to the question of supporting the views of the right hon. gentleman by the gentlemen who had gone through the investigation, the numbers were, for my right hon. friend, two, and against him seven.

That was the division of opinion in the Committee which heard the case.

SEC. 3.—Well, Sir, the right hon. gentleman has shown, or endeavoured to show, various inequalities in the Income Tax. *I do not contest one of them.* I make a whole armful of concessions to him. I think I have had reason to know more of the Income Tax in the course of the twelve years that I was Chancellor of the Exchequer than even the right hon. gentleman does. I will not accuse the right hon. gentleman of exaggerating those inequalities; *it is hardly possible to exaggerate them.* The hon. gentleman has only touched on a few of them. Well, what is to follow? He says at the end of his speech that he offers us a scheme which our own official men are ready to carry into effect. I want to know what authority he has for that statement. I can only say that I have had large experience of the Board of Inland Revenue under three or four different chairmen, and all those who were connected with them, and I never knew one who was ready to embark in the hopeless enterprise proposed by the right hon. gentleman.

MR. J. G. HUBBARD: I have offered no scheme to-day; there is none before the House. What I said was, that the able officials of the Inland Revenue Department could, with great ease, prepare a scheme for carrying out the principles of my Resolution.

MR. GLADSTONE: I am glad to have elicited

that explanation from the right hon. gentleman. He gave his opinion of what the officials of the Inland Revenue Board would be ready to do. I thought he had said that they were ready to carry out his scheme. There is all the difference between the two things. What the right hon. gentleman's opinion is of the capacity of the officers of the Inland Revenue Department is no doubt important; but it is not so important that we can prevail on them to prepare such a scheme. Every Chairman of the Board whom I have known, from Mr. J. Wood to Mr. Charles Pressley, regarded this scheme as a wholly visionary project, though no doubt philanthropic and benevolent in intention, and as absolutely impossible of practical application.

SEC. 4.—But the right hon. gentleman says he proposes to relieve certain schedules and to increase the burthen on certain other schedules. I remember another gentleman who was not less benevolent than the right hon. gentleman. He was a very able man, and one much accustomed to speak upon finance in this House, I mean the late Sir Fitzroy Kelly, who went to a constituency and attacked the inequalities of the Income Tax. He began with Schedule A, and he said that it suffered most grossly, as the right hon. gentleman also said, and that was to receive a handsome reduction. Then he went on to Schedule B, touching the farmers' profits, and he said that

that was a cruel shame, and they were to have a handsome reduction. He came to Schedule D, and he said that case was monstrous, and it was plain they must have a handsome reduction. Then he passed on to Schedule E, dealing with officials' salaries, and he said these were men whose remunerations were measured in the nicest way, and it was monstrous to lay on them the full tax, and they were to have a handsome reduction. He then came to Schedule C—the fundholders—who, relying on the public faith, had accepted the lowest interest, and he ended by saying that they also should have a handsome reduction. But what he failed to do was to exhibit the numerical and financial result of allowing handsome reductions to these gentlemen all round. He made a most popular speech without exhibiting a practical result. That is not the right hon. gentleman's course; but I observe the right hon. gentleman was what the Scotch call "canny." In his references to the Schedule I heard him speak of E, I, U; I did not hear him mention O, but it seemed all through to be A, E, I, O, U. Why was it necessary to go to the five vowels? We have got the first five letters of the alphabet, and is that not just as good? A, B, C, D, E, he would not touch. He thought it was better to generalise a little, and detach the operation of his plan from dry, hard, matter-of-fact, because the right hon. gentleman yesterday

had the great advantage of enjoying the support of the landed interest. They rose on his behalf in order to insure this discussion. [Cries of "No, no!"] Who rose then? I constantly hear it boasted from that quarter of the House that they are the landed interest. I believe there are some other people in the House who have got land; but, at the same time, they are always calling themselves the "landed interest" by way of excellence. They are entitled to do that, and I believed in calling the Party opposite the landed interest I was paying a compliment. Well, now, what is the right hon. gentleman who got those forty gentleman to rise and help forward this motion going to do with Schedule A? If he had taken A, B, C, D and E, instead of the vowels, it would have been necessary to particularise, and to have said we will lighten A, B, and C, and tax further I and U. No; he is not going to tax I and U, except upon the five vowels; but among the actual schedules taxed "he is going to tax further Schedule A as the main basis of his operations." Does the right hon. gentleman mean to tell me that if he has got £12,000,000 to raise by the Income Tax, and has begun by allowing a reduction of 33 per cent. on D and E, he will get his £12,000,000 without further taxing Schedule A?

Mr. J. G. HUBBARD: It is my firm conviction that in the recommendation which I have made

Schedule A would, as nearly as possible, be in the same position as it is now, with this advantageous result from an adjustment, that those who are most heavily burdened would have their burdens lightened.

Mr. GLADSTONE: I must investigate this a little further. I think it would have been better had he not taken those five vowels. It would have been much better if he had told us that the question really was whether *Schedule A* was to be burdened or not. That is the main question. Now, the right hon. gentleman said at present you do not get upon *Schedule D* one-half of what you ought to get. Why do you not? Why, because of the great indignation against the injustice of the law; and, in consequence of that indignation at the Revenue, persons only pay upon 44 per cent. of their income. Well, Sir, the right hon. gentleman has a faculty of imagination which came out in the last sentence of his speech, where he said that he was—I cannot remember the exact words—bringing forward a plan which would be easy of administration, lucrative in result, and satisfactory to the entire community. He offered to us a kind of paradise of taxation. I do not believe that the reason why you only get 44 per cent. of this tax is this indignant sense of being oppressed. It is nothing of the kind. It is the unfortunate fact that a considerable portion of the community will escape paying dues to the Chan-

cellor of the Exchequer if they can. At any rate, that is a question between the right hon. gentleman and him; but what I want to know is this—the right hon. gentleman from D and E deducts at least 33 per cent. Does he propose to deduct 33 per cent. from A? No, nothing of the kind; and I will leave it to the landed interests and other gentlemen to say whether the fact of deducting 33 per cent. from D and E, if the same sum of money has to be raised, will or will not be a burden on Schedule A? [Mr. J. G. HUBBARD: I have not made the calculation.] I asked the right hon. gentleman if he ventured to take 33 per cent from Schedule A, and he says no. I say that my right hon. friend's plan manifestly goes to the burdening of Schedule A. That is a question which I have treated at great length in this House, and I will not refer to the arguments because they are too long and intricate. I think it would have been better if the right hon. gentleman had used the five letters in the actual schedules, and not have gone to the five vowels in order to obscure the operation of the plan.

SEC. 5.—What is the real case? I have stated broadly to the right hon. gentleman, and I do not question it, that there are a number of inequalities in the Income Tax, some of which he has shown, and many of which he has not shown at all, and many of which he does not seem to have any idea of. Are these inequalities incurable, or are they

not? Sir, the right hon. gentleman refers to a time when I, on the part of the Liberal Government, engaged that we should abolish the Income Tax. Why, according to the doctrine of the right hon. gentleman, it would be a great mistake to do away with the Income Tax. That seems to be his idea. Now, can this operation of curing be performed? The right hon. gentleman says it can; but he had the opportunity of stating his case ten times more fully before the Committee he induced the House of Commons to appoint, and that Committee, by seven to two, declared that he had entirely failed. That is an awkward fact for the right hon. gentleman; but it is true. He was not dismayed by the adverse vote of his Committee, and he proposed it again the next year, on which occasion his majority was only four. Let me go a little further and tell him this—that with one single exception—a clever man, Mr. James Wilson—there never has been, to my knowledge, one single Minister or economist who has paid the slightest responsible attention to this subject for the ninety years since this tax has been established who would have concurred in the opinion of my right hon. friend. (Cheers.) Mr. Pitt and Sir Robert Peel are the two greatest financiers who have been at the head of a Government. Do you not think they took the greatest possible interest in finding, if they could, those means of removing an anomaly and an injustice, and to make the tax delightful

and popular to everybody. (Laughter and cheers.) Certainly they did; and I remember very well going to Sir Robert Peel when I was a Parliamentary youngster (laughter), a character that was then, I must say, very different indeed from what it is now (renewed laughter and cheers)—after hearing something like the speech I have heard to-night. I was extremely captivated by the speech, and I spoke to Sir Robert Peel about it. He put an extinguisher upon me in half a minute (laughter), and declared that he would not entertain for an instant a proposition such as this. (Laughter.) I have mentioned Mr. Pitt, Sir Robert Peel, Sir George Lewis, Mr. Herries, and the right hon. baronet opposite (Sir S. Northcote). Besides these I say there is no one, and I challenge him to produce one. Why does the right hon. gentleman not make his plan? He said that we had no plan before us—(Mr. HUBBARD,—A good plan)—that does not really touch the difficulties of the case. I first became Chancellor of the Exchequer thirty-two years ago. At that time Mr. Disraeli, who had been the Chancellor of the Exchequer before me—as I know simply in the expression of private opinion and without any communication with the Revenue departments—had expressed an opinion in favour of taxing Schedule D at 3*d.* and Schedule A at 7*d.* That secured to a great extent the votes of the Conservative party for a plan of that kind. In the

Liberal party of that time there was an extremely free prepossession in favour of a plan of the kind ; and when I became Chancellor of the Exchequer I will venture to say that if the question had to be decided there and then, an immense majority would have voted for the plan of differentiating the Income Tax. (Cheers.) In these circumstances I think it is pretty obvious that if it had been possible for me with my faculties to find a way I should have done it. I spent more labour on a subject of this kind than I have ever done on almost any other subject in my life. I came down to the House and argued the case at great length, and I showed the great anomalies and difficulties involved then, and they were as nothing compared with the anomalies and difficulties which would have been involved if you had fixed differentiated duties on different schedules. The House of Commons, by a large majority, having been induced to look closely into the case, repelled entirely these plans and voted for the Income Tax as it had been voted before. There are two rival plans. One is that of my right hon. friend. There is no doubt whatever about the inequalities in the tax. My right hon. friend says, "Cure the inequalities, make the tax perfect, keep it perpetual." And the other plan is, "The tax is incurable of its inequalities, and in support of that doctrine is arrayed every man who has ever been in the position of a Minister responsible for dealing with

the tax.” What said the report of my right hon friend’s own Committee? It said, “This tax has now been made the subject of investigation before two Committees, and, no proposal for its amendment having been found satisfactory, your Committee are brought to the conclusion that the objections which are urged against it are objections to its nature and essence rather than to any particular shape which has been given to it.” Well, it was upon that principle that we acted in 1874, when we saw that the finances of the country allowed the tax to be abolished, and when we engaged to abolish it if we were permitted. But that matter was referred to the country at a general election, and the country chose to return a Parliament which they perfectly well knew was pledged to the Income Tax with all its inequalities. Nothing was said about removing its inequalities. They declined the offer of abolishing the tax that was given them, and my right hon. friend need not trouble himself now to make many arguments against the abolition of the tax, for I can promise him that a sufficient number of years will pass over the heads of Englishmen before they will have another opportunity of abolishing it. I had been most anxious ever since my connection with financial affairs began to give them the choice. I gave them the choice; they took it, and the consequence cannot be disturbed for some very considerable time. One objection which I omitted to

mention to the plan of my right hon. friend is the sort of support which he received last night. I am not one of those who think that the land is overtaxed in this country. In the course now so freely pursued of continually transferring to the Consolidated Fund local charges, I have no doubt it will be necessary to settle accounts with those who have pushed forward that plan, and to make a just arrangement (hear), but I do not think the land ought to be further taxed under the Income Tax as compared with the other schedules. I have, however, a much stronger objection to the plan of my right hon. friend. If I understand him rightly, he proposes to make certain allowances to Schedule A. I imagine he will undoubtedly make allowances to Schedule B, which is substantially in his view in the same category as Schedule D. In Schedule D he will deduct at least a third.

Mr. HUBBARD: Certainly not. If you look at the Bill in your hand you will see that the deduction of one-third is entirely on industrial incomes, and not on the interest of capital.

Mr. GLADSTONE: That does not touch my argument. My right hon. friend is going to make a large reduction on Schedules D and E. What is he going to do with Schedule C?

Mr. HUBBARD: I propose to make no deduction at all.

Mr. GLADSTONE: Has my right hon. friend considered the conditions under which this country

contracted its loans? When it contracted its loans it gave the most solemn pledge to those who lent the money that their money should not be made the subject of taxation.

Mr. HUBBARD: Quite so. Why have you taxed it? (Hear, hear.)

Mr. GLADSTONE: How has Mr. Pitt and how has Sir Robert Peel dealt with that? By this doctrine—that they laid the tax equally on every subject without reference to the sources from which this income was derived. It has been in that way, and in that way alone, that those great men believed that they maintained the public faith; but my right hon. friend proposes to cut away from under our feet that which they urged as their only defence against the charge that they were breaking faith with the public fundholders. It is impossible for the right hon. gentleman to expect that he will find a responsible Government of this country to carry through such a plan as he proposes. He is the last man in the House who would knowingly do an act of questionable faith. This question of the fundholders is a very serious one, and it will be a very awkward thing for my right hon. friend to come into conflict with Mr. Pitt and Sir Robert Peel when he proposes to do that which they saw would be a breach of faith with the public fundholders. I have quoted enough of historical authorities. It is all very well for ingenious

gentlemen to make speeches on this subject. I agree with very much that my right hon. friend says, and I agree with a vast deal more that might be said; but, as to the point of practicability, I must say that those who have been in the position to be responsible in this matter in long succession, continued throughout many generations, without a motive to draw them aside from the right path, but with every motive to make them pursue it, are safer guides in a matter of this importance than what I regard as the academical speculations of my right hon. friend. (Hear, hear.)

Mr. MACFARLANE did not intend to go into the intricacies of this question, but wished to remark that he called attention to one particular branch of it last year, when an important error arose in the discussion. To the "Customs and Inland Revenues Bill" he moved an amendment for the purpose of preventing the Chancellor of the Exchequer from putting his paw on incomes that never came into the United Kingdom. The Chancellor of the Exchequer told him that a case had been tried in 1808, in which it had been decided that the whole income, whether made in England or not, was to be assessed. Still, a hundred members voted for the motion, objecting to that which was stated to be the law. His own solicitor being unable to find the case in the published reports, he applied for a reference to it to the Chancellor of the Exchequer's private

secretary, who furnished him with the full particulars of the case, from which it appeared that what the Chancellor of the Exchequer had been advised was a legal decision was only the opinion of the Inland Revenue Board, which was not upheld by the Income Tax Commissioners, the case being that of a gentleman who carried on trade in Ireland, which was not then subject to Income Tax, and who, having for some time paid tax on the whole income, succeeded in obtaining exemption, except for the portion of his income which was expended in England. In these circumstances, he should raise the point again this year on the "Inland Revenue Bill," and it was probable that some hon. members who did not vote previously against what they were told was the law, would support his motion, which was in conformity with the law. (Hear, hear.)

Sir R. ASSHETON CROSS said he understood that the object of the discussion on the motion for the morning sitting was to prevent interference with the rights of private members, and he was under the impression that the first subject to be discussed was the motion on Portpatrick Harbour, which, it was said, would not take long, but would lead to a division. On reaching the House at five minutes to ten, he was surprised to find that the House was not discussing the first motion on the paper, and he believed many of his friends were absent in the belief that that motion would occupy more

than an hour, and that the motion on the Income Tax would be reached at a later period. (Hear, hear.) He must emphasize one thing which had fallen from the Prime Minister. It had been shown clearly what the anomalies in the Income Tax were, and the Prime Minister had admitted that the anomalies were cruel; but he said they could not be remedied, and therefore they must be perpetuated as long as the Income Tax itself. He said there were the greatest possible difficulties in remedying them.

Mr. GLADSTONE: Not difficulties, but impossibilities.

Sir R. ASSHETON CROSS said it followed that if the Income Tax were continued the anomalies could not be removed. In 1874 the right hon. gentleman offered the constituencies the greatest bribe ever held out to them—viz., the abolition of the Income Tax; but the constituencies resolutely and boldly refused to accept it, and now it seemed because of this refusal no attempt was to be made to remedy the inequalities, although it was admitted that the operation of them amounted to cruelty. He entirely agreed in the views of his right. hon. friend, and he had hoped that some expectation would have been held out to the public that the existing inequalities, which the Prime Minister admitted, would have received some attention from him, with a view to their removal. The Prime Minister, however, adopted a different

course. He seemed to have taken offence because the country did not accept the bribe of the promised abolition of the Income Tax, but surely that was no reason why some attempt should not be made to remedy its inequalities. The taxation of the country had been greatly increased since 1874, and it was equally clear that the number of articles which were taxed had gradually diminished. If the Income Tax had been abolished, it was difficult to say on what articles money could be raised to meet the expenditure of the country.

Mr. GLADSTONE: I wish to explain. I must have conveyed a totally erroneous impression to the mind of the right hon. gentleman. He says that I stated because the country refused to have the Income Tax repealed in 1874, therefore I am determined that no attempt shall be made to remedy the inequalities in its assessment. I am not aware that any word of my speech in the slightest degree warrant that statement. In 1853 and on other occasions in this House I stated plainly that it was impossible to reconstruct the Income Tax on the principle of different rates and allowances in the different schedules, and the opinion I entertain on that subject is the opinion of the right hon. baronet the Member for North Devon, as recorded in the Report of the Committee of 1861.

Sir R. ASSHETON CROSS: I understood the right hon. gentleman to say that he had no remedy to

propose for the inequalities. (Mr. GLADSTONE : Hear, hear.) As far as I can gather, that is the present position of the question.

Mr. WHITLEY said the question was a very important one, and he had hoped that it would have been met by the Prime Minister in a different spirit to that in which he had addressed the House. Hon. Members seemed to think it only affected the owners of large properties, but he could assure the House that those who suffered most were the owners of property in large towns. There they suffered from over-taxation, and he thought that by what the Prime Minister had said the House had been led away by the Resolution of his right hon. friend (Mr. J. G. Hubbard). It was a very simple resolution which called attention to the admitted grievance that for local purposes taxation was upon the net value, whereas for Imperial purposes it was upon the gross value. This state of things caused a great deal of dissatisfaction, not among the large owners of property, but among the small owners. (Hear, hear.) When he heard that the Income Tax was to be a perpetual tax—

Mr. GLADSTONE : I did not say so.

Mr. WHITLEY said the right hon. gentleman had stated that it would be a tax for many years to come. (Hear, hear.) If it was to go forth to the people that the tax was likely to be continued, the country would be very much indebted to his

right hon. friend for having called attention to the subject. (Hear, hear.) The other question was the difference between the taxation of settled income and the taxation of precarious incomes. He could well understand the difficulties to which the right hon. gentleman had drawn attention, but at the same time the question was one worthy of serious consideration, and one which the country would expect the Government, if possible, to rectify. He thought, therefore, that the Prime Minister had, if he would allow him to say so, led the House away from the issue before it. The Prime Minister seemed to lose sight of the real question of the right hon. gentleman. It was a question which he was sure was deep in the minds of thousands of our fellow countrymen—the owners of small property—and the great bulk of the constituences must again and again have it brought before them. He was very much indebted to his right hon. friend for having brought the question forward; but, considering the present condition of the House, he did not think it would be wise to press the matter any further.

Sir MASSEY LOPES said he did not hesitate to say that no owner of landed property ever received, say, 80 per cent. net of any property which he held. He paid Income Tax on the gross rental. There was no allowance for repairs, insurance, bad debts, &c. Let the House compare the difference with regard to trades. In trade

they made their own returns, and received a liberal allowance for all those outgoings which, in the case of land, were never taken into consideration. The comparison between the treatment of traders and the treatment of the owners of landed property was certainly a very grievous one. [Mr. GLADSTONE: Hear, hear.] He would give an illustration. Only a short time ago he owned a poor property in the middle of a moor of about 100 acres. The buildings were very dilapidated. It was a question with him whether he should let it go down to common, or re-construct the farm buildings. He was unwilling that it should go down to common, and he built upon it. The cheapest buildings he could put up cost him £700. He let it for £50 a year, and now he had paid fourteen years' Income Tax, but had not received a single farthing for the property. At no period had the landed interest suffered so much as during the last few years. Reference had been made to the question of subventions. He contended that the whole of the subventions had been absorbed entirely by the extra taxation for education, etc., which had been imposed upon the landowners since 1870. He would remind the Prime Minister that many years ago he promised that this question should be considered when the subject of local taxation came before them, and that relief should be given some other way. That promise had been kept dangling before them without any

definite remedy. He sympathised very much with the Motion, because, as regarded the landed interest, they had still a very great grievance.

The House divided, and the numbers were :

For Mr. Hubbard's resolution	.	35
Against		73
Majority		— 38

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Gladstone on the income tax.

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